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Staff Study No. 12  
Draft of June 1, 1955

Economic Penetration of Underdeveloped Areas  
by the Communist Bloc

Attached are revised and new pages to be substituted for certain old pages of Staff Study No. 12, on "Economic Penetration of Underdeveloped Areas by the Communist Bloc":

Revised Page 1  
New Page 1a (continuation of Revised Page 1)  
Revised Page 3 which refers to Footnote 1/ at the top and bottom of the page.  
New Page 3a, which constitutes Footnote 1/.  
Revised Pages 6 and 7  
New Page 7a (continuation of Revised Page 7)

Irving I. Kramer  
Executive Secretary

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ECONOMIC DEFENSE POLICY REVIEW

Staff Study No. 12  
(Draft, May 20, 1955)

Economic Penetration of Underdeveloped Areas  
by the Communist Bloc

This draft of Staff Study No. 12, on "Economic Penetration of Underdeveloped Areas by the Communist Bloc", is transmitted for your use in connection with the work of the CFEP Drafting Group on Economic Defense Policy Review.

In compliance with the request of the Chairman of the Drafting Group, the Executive Secretary, EDAC, is providing reproduction and distribution facilities as a service to further the work of the CFEP Drafting Group.

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Executive Secretary

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May 23, 1955

TO: The Economic Defense Drafting Group of the CFEP  
FROM: The Chairman of EDAC Working Group V  
SUBJECT: Economic Penetration of Underdeveloped Areas by the Soviet Bloc

Reference is made to the request of the CFEP Drafting Group on economic defense policy on April 26 that Working Group V prepare a paper on the problem of economic penetration of underdeveloped areas by the Soviet bloc. In making this assignment, the Drafting Group endorsed the broad conclusions contained in the Working Group V paper of April 8, 1955, prepared for the OCB in connection with the U.S. assistance program for Asia.

The attached paper, approved by all members of Working Group V, is essentially an expanded version of its paper of April 8, 1955. This revised version has been broadened and modified to be directly responsive to the assignment from the Drafting Group, to cover the entire underdeveloped free world, and to reflect certain additional considerations which the Working Group believed meritorious.

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ECONOMIC DEFENSE POLICY REVIEW

Staff Study No. 12  
June 1, 1955  
(Contributed by State  
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Working Group V)

Economic Penetration of Underdeveloped Areas  
by the Communist Bloc

Problem

What should the U.S. attitude be with respect to the acceptance by underdeveloped countries of Soviet bloc offers of trade and economic development assistance?

General Considerations

1. The same basic problem of Soviet bloc economic infiltration exists with respect to all underdeveloped areas of the free world and differs only in emphasis and degree.
2. For the purposes of this paper the problem of trade, as such, between the Communist bloc and the non-Communist underdeveloped areas may be treated rather summarily. The general approach of the U.S. Government, as laid down in the Battle Act and in the pertinent NSC directives, has been to seek the cooperation of the underdeveloped areas of the free world, as well as of the industrially advanced countries, in a system of selective controls over the export of strategic items to the Soviet bloc. For a variety of reasons, some political, some psychological, and some economic, the U.S. has not sought a total embargo on East-West trade. Accordingly, the U.S. does not object to nonstrategic trade between the underdeveloped areas and the European Soviet bloc so long as such trade does not become a means by which the system of strategic trade controls can be undermined or by which the bloc can otherwise extract

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undue economic and political concessions. As to Communist China and North Korea, the policy of the U.S. has been to endeavor to persuade other free world countries, including the underdeveloped countries, to maintain very stringent export controls in support of the U.N. Resolution of May 18, 1951, and as agreed among the participating countries in the CG/CHINCOM.

3. The principal

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3. The principal concern of this paper is with technical assistance offers to underdeveloped countries by the Soviet bloc. The term "technical assistance" as used here includes the services of scientists and technicians, as well as the export of capital goods, particularly, but not exclusively, on a gift or credit basis. The technical assistance offers of the Soviet bloc are a relatively recent development, beginning in late 1951, when the USSR began to propagandize offers of economic or technical assistance to underdeveloped countries. The European satellites have followed the Soviet lead.

4. Although the activities of the Soviet bloc to date have been largely confined to propaganda, the year 1954 witnessed a number of disturbing exceptions, including various Soviet-financed and erected projects in Afghanistan, a proposed Soviet steel mill project in India, and an Eastern German project for erection of a sugar mill in Indonesia. A summary of Soviet bloc offers to, and actual contracts concluded with, countries of the free world for technical assistance is appended to this paper. This summary is not all-inclusive, but illustrative of the geographic and technical scope of the Soviet effort.

5. Despite the increase in expressed Soviet interest in providing economic assistance, there are no indications that the USSR or other Soviet bloc countries have the intention or capabilities of launching a large-scale capital export program to underdeveloped areas. Nevertheless, this does not mean that the Soviet bloc could not supply technicians and relatively important exports of capital goods and equipment to less developed countries in certain instances. In those instances in which the Soviet objectives far outweigh the resultant economic sacrifices from the adoption of such a program, the USSR may well decide to grant

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economic assistance to make political gains. It may make capital goods available for export, either on a grant or credit basis or in exchange for foodstuffs or raw materials. 1/

6. The economic growth process has barely begun in south and southeast Asia. There is a tremendous upsurge of aspirations and pressures for fundamental changes in the pattern of life which cannot be accommodated within the foreseeable future unless more rapid economic development takes place. However, there is a gap between the indigenous financial resources and technical skills available and those needed for rapid development. Consequently, free governments in the Asian area look to external assistance to aid them in their task of improving their economies.

7. In Latin America there has been very rapid economic growth since World War II, but living standards are still low. The possibilities for Soviet bloc activity of the kind under consideration here are not provided so much by pressure for even more rapid growth, although that is a factor, but by Latin America's desire to find markets for its exportable commodities, by rather widespread inflation in Latin America, by other imbalances resulting from present rates of economic development, and by social changes.

8. The non-Communist underdeveloped countries are being assisted in the implementation of their development programs by free western nations which extend assistance through various programs, both bilateral and multilateral. The U.S. is the largest contributor of such external economic assistance. Its programs are predicated on the belief that economic advancement through democratic processes is necessary for the maintenance and improvement of the political, economic and social stability essential to world peace.

9. The U.S.

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1/ According to an article which appeared in the April 1955 issue of the USSR publication on Foreign Trade, "Vneshnyaya Torgovlya," and which is believed to be substantially correct, a Combine for Export of Technology and Industrial Products, "Technopromeksport," has recently been established in the USSR.

This All-Union Combine provides an apparatus capable of exporting capital equipment and furnishing technical aid to underdeveloped areas. According to its charter, the Combine will have the following functions:

1. Research work for designing projects and installations, for geological prospecting, aerial photographs and exploration.
2. Project design for enterprises and installations to be built.
3. Control and check through surveillance to assure that construction and assembly work follow the design and engineering documents.
4. Supervision of assembly of equipment and putting industrial and other enterprises into operation.
5. Training of foreign nationals, both in the USSR and abroad, for work in industrial and other enterprises abroad.

In order to carry out these functions, Technopromeksport is empowered (a) to conclude all kinds of agreements and carry out other activities, including credit and exchange operations with institutions, enterprises, and individuals in the USSR and abroad, (b) to establish subsidiary enterprises, and (c) to acquire necessary property in the USSR and abroad. Technopromeksport may also establish offices, agencies and representatives abroad and participate in all kinds of organizations and associations.

The charter of the new corporation gives it planning and supervisory functions formerly held by Technoeksport, although Technopromeksport is probably now more truly a technical aid organization than is Technoeksport.

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9. The U.S. recognizes that the magnitude of the development task in the non-Communist world is such that the U.S. could not, within the limits of its present or foreseeable financial and economic resources, finance that development by itself. Instead, reliance must be placed upon the more active mobilization of indigenous resources by the countries themselves, with external assistance serving to complement and supplement those indigenous efforts. U.S. programs, founded on this belief, are designed to lay the basis for long-run economic development. Stress is placed upon the development of technical skills and the installation of basic facilities which are necessary prerequisites for a self-perpetuating indigenous development program.

10. This approach, while basically sound, is often unspectacular. Its results are cumulative but slow to be discerned. Such an approach foregoes the erection of monuments for their own sake, although there have been instances in which U.S.-sponsored projects have yielded spectacular results. The Soviet bloc, however, recently has made at least one effort in Asia at economic penetration through the extension of technical assistance and economic aid for "monumental type" works, as in the case of the Indian steel mill project, which lends itself easily to propaganda exploitation. In at least one case, Afghanistan, the projects appear to have more potential military value to the USSR than economic value to the recipient country. It is less likely that the Soviet bloc would attempt monumental type projects in Latin America. The emphasis in that area is more likely to be on technical assistance projects and increased trade.

11. These offers present a problem for the U.S. Government. They are viewed by recipients as one of several means of fulfilling their aspirations for more rapid economic development and the early achievement of an improved standard of living. Recipient governments, although often aware of the motives behind such

offers,

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offers, seem sometimes insufficiently concerned about them. The U.S. regards Soviet economic penetration as potentially dangerous for the stability of some underdeveloped areas and as a possible threat to the realization of U.S. foreign policy objectives in those areas. But we need to be extremely careful in formulating our outward attitudes with respect to proffered Soviet assistance so as to avoid the impression that we begrudge the efforts of others to provide projects which we, for sound economic and policy reasons, have not been inclined or prepared to provide. Moreover, it is entirely possible that in some cases a disclosed attempt by the U.S. to prevent acceptance of a Soviet bloc offer would make its acceptance a political necessity for the recipient country involved. Here again this judgment would vary as to its applicability to the neutralist countries of Asia on the one hand and the Latin American countries on the other.

12. The U.S. Government will wish to give careful attention internally to every Soviet bloc offer of economic development assistance to underdeveloped countries. Each offer should be scrutinized in the light of overall U.S. policies, U.S. policies and programs in the particular country concerned, and the attitude, policies and programs of the country itself. In this manner judgments can be reached as to what, if any, U.S. actions, including, possibly, even an offer of our own, could and should be taken to forestall, thwart or counteract acceptance of the Soviet bloc offer. However, it seems essential, at the outset, for the U.S. not to place itself in a position of bargaining against the Soviets or appearing ready to meet any request for aid solely in order to forestall or offset the acceptance of economic assistance from the Soviet bloc. To do so might be tantamount to placing U.S. assistance programs under the direction of the USSR,

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of the USSR, or alternatively, under the direction of the underdeveloped countries themselves, which could dictate the nature and terms of U.S. assistance by rumor-ing that "Moscow has offered to do this for us."

13. It seems essential, also, for the U.S. to maintain a flexible position, giving us the maximum possible freedom of action to anticipate Soviet economic moves and take appropriate preventive or corrective action. This would indicate an approach dictated by the special and differing circumstances in each country which the Soviet bloc seeks to penetrate. Also indicated is a continuing review of economic development possibilities in the light of these special and differing circumstances. Quite obviously, certain cases of attempted Soviet penetration will be of greater concern to the U.S. than others. Some cases might prove to be sheer bluff, particularly if grandiose in character, and, if allowed to reach abortive conclusions without official U.S. intervention or even cognizance, might net the Soviets propaganda defeats. In other instances, the Soviets might have every intention to fulfill their promises; in such cases the U.S. might or might not wish to make some attempt designed to offset the undesirable effects of the Soviet action, depending, again, upon the general situation and the prevailing special circumstances. It is conceivable that, in certain instances, Soviet bloc economic assistance to underdeveloped countries might be evaluated by the U.S. Government as a net contribution to the economic growth and political stability of the recipient countries, and, therefore, as an indirect unintentional contribution to U.S. foreign policy objectives. If, in any case, the outcome of Soviet bloc assistance should prove to be constructive from the U.S. point of view, this result could be considered to be in some measure at odds with

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Soviet objectives in general; since it is axiomatic that economic deterioration and political instability are favorable to the extension of Communist influence.

14. In connection with the ad hoc approach to preventing or countering the undesirable effects of Soviet bloc economic penetration, consideration has been given to the possible usefulness and desirability of developing (a) criteria defining those situations in which the U.S. might wish to move in with special measures to thwart or counter Soviet actions, and (b) an arsenal of appropriate or illustrative special measures which might be employed in circumstances meeting such criteria. It was concluded, however, that this would be an impracticable exercise. At best, it would be academic; at worst, it might tend to introduce rigidities in thinking within the U.S. Government which could impair the flexibility required to meet future situations or unforeseen circumstances. Moreover, little would seem to be gained by a detailed examination of what the U.S. might have done at various stages in relation to even the known instances of Soviet bloc penetration. While it appears unwise to attempt to stake out in advance specific situations or circumstances in which the U.S. would employ special measures, it does seem necessary to establish at this stage a framework of broad principles within which the examination of specific situations can be made with the purpose of determining whether and what U.S. action might be appropriate and feasible.

15. In accordance with the foregoing line of thinking, and by way of summarizing the discussion to this point, it appears that the wisest general course of action for the U.S. to follow is to consider attempted Soviet economic penetration in the context of the broad programs of U.S. foreign economic policy, including our various technical and developmental assistance programs.

16. Consideration

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16. Consideration has been given also to the matter of the adequacy or inadequacy of existing U.S. Governmental machinery for examining specific Soviet bloc efforts at economic penetration as they arise and determining whether counter-measures seem appropriate. It is felt that, in general, the economic defense organization is adequate for dealing with the aspects of these problems with which it is concerned.

17. A final matter which may merit some consideration has to do with psychological warfare methods of countering Soviet bloc economic penetration efforts.

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There is some belief that Soviet activities of the kind under consideration in this paper render the USSR and its satellites unusually susceptible to psychological measures. However, this general subject is beyond the ken of the working group responsible for the preparation of this paper.

Suggested Courses of Action

In view of the foregoing considerations, the U.S. position respecting the acceptance of Soviet bloc offers by underdeveloped countries should be:

1. To give careful attention internally within the U.S. Government to attempted Soviet penetration through trade and development and technical assistance offers.

2. (a) In considering what should be done to prevent, reduce, or mitigate the effects of Soviet bloc penetration, to assume initially that existing U.S. foreign economic policies and assistance programs represent an earlier, broader, far more important initiative than the Soviets could mount on a similar global scale; and that these U.S. policies and programs serve as the general answers or counterweight to Soviet bloc economic penetration moves. There might, however, be a number of cases in which the Soviets would be willing and able to make an important and impressive contribution to an underdeveloped country's development which could overshadow U.S. efforts locally.

(b) Since U.S. policies and programs are relatively long-standing and often unspectacular and slow in coming to fruition, it should be an important part of our position to attempt constantly to make the peoples and governments of underdeveloped countries aware of the existence, nature and purpose of U.S. assistance, lest the latter come to be taken for granted.

(c) To insure

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(c) To insure that U.S. policies and programs give appropriate weight to the desideratum of reducing as far as practicable the scope for successful Soviet bloc penetration while at the same time serving generally to counter-balance Soviet bloc economic penetration moves.

3. To examine specific Soviet bloc moves toward economic penetration, not only from the economic and political standpoints, but from the military and psychological as well. The context of such examination should be the sum total of U.S. relations with the particular countries concerned and surrounding areas. The question to be answered by such an investigation is whether the "general answer" cited in Recommendation 2 above is adequate to safeguard essential U.S. security and foreign policy interests. If not, the appropriate U.S. agencies should be prepared to take such ad hoc action as the situation is deemed to require, employing resources then available.

4. (a) With respect to the overt official attitude of the U.S. on Soviet bloc assisted projects, to refrain in general from disparaging comment and to avoid displaying overweening curiosity. On suitable opportunities in receptive local circles, point out dispassionately the generally poor performance record of the bloc (citing specific instances as appropriate) in fulfilling its oft-exaggerated claims and offers in the fields of trade and economic development assistance. Point out, also, the advisability of keeping alert to inappropriate activities and undisclosed designs for which Soviet bloc development assistance projects might be a mask.

(b) Consideration should be given by appropriate U.S. agencies to the possibilities of employing psychological warfare, including possibly covert measures, as a means of countering Soviet bloc economic penetration of under-developed areas.

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## APPENDIX

Since October 1951 the USSR has continued to stress in its propaganda to the free world that it is prepared to offer economic or so-called technical assistance to underdeveloped countries. European satellites have been following the Russian lead. There was an increase in the number of these offers during 1954 and concrete results have appeared in a few places, particularly in Afghanistan and India. On the whole, however, such Soviet bloc activities to date have been confined to propaganda. In addition, the USSR contributes to the United Nations Technical Assistance Program.

Listed below is a summary of Soviet bloc offers to and actual contracts concluded with countries of the free world for technical assistance.

a. Afghanistan

Since early 1954 Afghanistan has accepted about \$6.2 million in loans and credits from the USSR. The money is to be used for building two grain warehouses, a flour mill, and a bakery near Kabul; erection of gasoline storage facilities in Kabul, which will augment such facilities already completed in at least three other towns. A gasoline pipeline from the Soviet border into northern Afghanistan is being built by the USSR. In addition, several other projects are at present also under consideration. All of these projects are to be carried on under Russian supervision and will utilize Russian supplies, materials, engineers, and workers. Well over one hundred Russians are now in key positions.

Czechoslovakia signed an agreement with Afghanistan in 1954 which included a \$5 million credit for purchase of Czech machinery and other products. On February 14, 1955, a contract under this credit was concluded for construction

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of a \$1,500,000 cement plant in Aghanistan.

b. India

The five-year trade agreement between India and the USSR, concluded on December 3, 1953, was accompanied by an exchange of letters in which a vague offer of Soviet technical aid was formally accepted.

(1) Following negotiations which began in September 1954, the USSR and India signed a tentative agreement on February 2, 1955, under which the USSR is to participate in building a one-million ton steel plant in central India. If this agreement is implemented, the plant will be completed by the end of 1959 with a few sections to be finished a year earlier. The total cost of the mill would be about \$200 million. The credit granted by the USSR for this project totals \$96.1 million (including \$5 million for services and the rest for equipment). Repayment, in rupees or in pounds sterling, is to be made over a period of 12 years at an annual interest rate of  $2\frac{1}{2}$  per cent, with the first payment due when the first shipment is delivered. The contract contains three escape clauses, which will permit either party to cancel. These escape clauses are: (a) Moscow must submit detailed plans within nine months; (b) plans must be approved by the Indians; and (c) cost of equipment to be supplied by the USSR must not seriously exceed \$91.1 million. India also has the option to complete the plant without Soviet participation in case of war or an embargo.

(2) The USSR announced that it has signed a contract to send India complete equipment for a machine tool factory and to give the necessary technical assistance in its construction. This report has been denied in Calcutta.

(3) The USSR has offered technical assistance and machinery valued at over \$1 million for modernizing the Panna diamond mining industry. Three mining engineers

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engineers have already surveyed the project and have submitted a report.

(4) Among the satellites, Hungary has begun construction of a copper wire manufacturing plant at Patiala in northern India which will be operated by Hungarian specialists. It is also reported that Czechoslovakia has offered to supply India with a steel mill on terms similar to those of the Soviet offer. (Actually, Czechoslovakia imports components of steel plants to increase its own output of steel.)

c. Indonesia

During 1954 Indonesia sought foreign capital to rebuild its sugar mills. Several offers were received, including ones from East Germany and Czechoslovakia. The Eastern German credit, amounting to an estimated equivalent of \$7 million, for construction and operation was accepted. Payment will be made in kind during the first six years of operation. Under the terms of the agreement fifty East German technicians will be in Indonesia to aid in the construction and operation.

The USSR, Czechoslovakia, and Rumania have also offered assistance in the Indonesian development program.

d. Turkey

It has been rumored that the USSR has offered Turkey long-term credit for economic development, in particular, equipment for cotton thread mills.

e. Others

Offers have also been made to several other countries not in the underdeveloped category. Finland has been offered a petroleum refinery on very favorable credit terms by the USSR, but this has been rejected, and an agreement has been made with an American firm and its affiliated companies in Europe for the planning and construction of a refinery. The USSR, along with several other

countries,

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countries, offered to build a cement plant in Iceland; it is presently thought that the contract may go to a western European country which imports large amounts of Icelandic fish. Under the terms of the Soviet-Argentine agreement of August 5, 1953, renewed a year later, a \$30 million credit was provided for the Argentine purchase of Soviet capital goods and necessary services. As of today none of this credit appears to have been utilized, although some might be, as a result of the current exhibit of Soviet machinery in Buenos Aires.

Participation in the UN Technical Assistance Program

Up to the summer of 1953, the USSR and satellites did not contribute to the United Nations Technical Assistance Program. Beginning in that summer the Soviets have pledged or contributed 4 million rubles (approximately \$1 million) for three successive years. Lesser amounts have been pledged or contributed by the satellite states. There is now available to the Program, from all ruble sources, a total of approximately \$3,350,000. All of this is in rubles and is "nonconvertible." There appear to be only three ways in which the contributions may be used: salaries of Soviet experts, training for UN fellows within the USSR, and shipment of Soviet supplies and equipment.

Projects

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Projects approved for 1955 for utilization of the ruble contribution, including those to be administered by FAO, are as follows:

		{Dollar Equivalent}	
		<u>Project</u>	<u>Country Total</u>
Ceylon	Chemical and allied products equipment	\$ 9,000	\$ 9,000
Chile	Equipment for technical schools and institutions	200,000	200,000
Ecuador	Housing equipment	5,000	5,000
India	Statistics	504,950	536,000
	4 experts - 36 months		
	Equipment		
	General economic survey	20,050	
	1 expert - 5 months		
	10 fellows - 10 months		
	Animal production and disease control equip.	11,000*	
Jordan	Chemical and allied products equipment	2,000	12,000
	Mineral resources development equipment	10,000	
Pakistan	General economic survey equipment	70,000	307,400
	Water resources development equipment	130,000	
	Land & water use & farm machinery equipment	20,000*	
	Irrigation projects equipment	87,400*	
Yugoslavia	Fabricated metal projects equipment	14,500	169,200
	Power production equipment	58,100	
	Mineral resources development equipment	13,300	
	Chemical and allied industries equipment	7,100	
	Irrigation project equipment	76,200*	
Asia & Far East, Regional	Mineral resources development study tour	90,000	90,000
	10 fellowships		
	2 experts in Russia		
Middle East & Asia, Regional	Forestry development equipment	87,840*	87,840
Near East, Regional	Desert locust control equipment	132,500*	132,500
Asia, Regional	Fishery equipment	87,300*	87,300
Total projects approved for 1955 as of May 9			1,636,240

\* FAO Project

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So far, only a small portion of the contributions made available to the UN Program by the Soviet bloc countries has been utilized. None of their nationals has been sent out under the program from other funds. About 91 per cent of the total programmed will be used for Soviet supplies or equipment. Only three of the approved projects involve Soviet experts or training grants within the USSR.

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